



DEPARTMENT OF
Management & Budget

Office of Retirement Services

Serving more than 580,000
customers



March 1, 2005

Mission and Vision



Mission: We deliver pensions, related benefits and services to promote the future financial security of our customers.

Vision: Fast, easy access to complete and accurate information and exceptional service.

Highlights

- Office of Retirement Services
 - The Retirement Office services customers representing approximately 1 out of every 18 Michigan residents
 - The Office of Retirement Services paid \$4.2 billion in pension and health benefits in 2004
 - The current market value of the defined benefit's assets totals more than \$47 billion
 - In 2004 the Defined Contribution/ Defined Compensation assets totaled more than \$3.7 billion

3

Customers

The Retirement System serves over a ½ million customers

- | | |
|--------------------------------------|------------------------------------|
| • Public Schools | • State Police |
| – Retirees and Beneficiaries 146,000 | – Retirees and Beneficiaries 2,697 |
| – Current Employees 321,200 | – Current Employees 1,878 |
| • State Employees | • Michigan Judges |
| – Defined Benefit | – Defined Benefit |
| • Retirees and Beneficiaries 45,600 | • Retirees and Beneficiaries 549 |
| • Current Employees 34,800 | • Current Employees 325 |
| – Defined Contribution | – Defined Contribution |
| • Retirees and Beneficiaries 6,300 | • Retirees and Beneficiaries 28 |
| • Current Employees 21,600 | • Current Employees 309 |

4

Public Schools – Customers

- The membership comes from:
 - Public school districts
 - Public school academies
 - All community colleges
 - Seven universities: Central, Eastern, Western, and Northern Michigan Universities, Ferris State, Lake Superior State and Michigan Technological Universities

5

State Employees – Customers

- The membership comes from:
 - All Civil Service employees
 - Appointed officials in the executive branch
 - Employees of the legislature and judiciary

6

State Police – Customers

- The membership comes from:
 - All sworn, enlisted officers

7

Michigan Judges – Customers

- The membership comes from:
 - All judges in the judicial branch of state government
 - The Governor
 - Lieutenant Governor
 - Secretary of State
 - Attorney General
 - Legislative Auditor General
 - Constitutional Court Administrator

8

Overview of Retirement Plans

- The Office of Retirement Services Retirement Plans:
 - Michigan Public School Employees Defined Benefit Plan
 - Michigan State Employees Defined Benefit Plan
 - Michigan State Employees Defined Contribution Plan
 - Michigan State Police Defined Benefit Plan
 - Michigan Judges Defined Benefit Plan
 - Michigan Judges Defined Contribution Plan

9

Overview of Retirement Plans

- The Retirement System also offers retirees optional post-retirement health insurance, dental and vision insurance, long-term care insurance, and life insurance

10

Overview of Retirement Plans

- Pension plans accrue assets to provide pension benefits to their retirees
- Generally speaking, there are two types of pension plans:
 - Defined Benefit Plans
 - Defined Contribution Plans

11

Overview of Retirement Plans

- Defined Benefit Plans
 - A defined benefit plan provides a specified pension benefit for the retiree's life. The amount is generally calculated through a plan formula based on age, service and compensation. The defined benefit pension amount typically increases proportionately based on the years of service with the employer offering the plan.

12

Overview of Retirement Plans

- Defined Contribution Plans
 - In a defined contribution plan, individual accounts for each plan participant are established to accumulate assets for retirement. The individual may make voluntary contributions to the individual account. The employer generally makes contributions to the individuals account.
 - The net retirement benefit is the amount in the account at the time of retirement.

13

Public Schools Retirement Plan

MEMBER INVESTMENT PLAN (MIP)

- Employees working on January 1, 1987, or hired between January 1, 1987 and January 1, 1990 had a choice between the Basic or MIP plan. All employees hired after January 1, 1990 entered MIP
- MIP members make contributions to the retirement system (3-4.3%)
- Takes 10 years to be vested in the system.
- Any age with 30 years of service to retire. Age 60 with 10 years of service or with 5 years as long as .1 of service occurred in each of the 5 preceding years
- Reduced benefits at age 55 with more than 15 but less than 30 years of service

BASIC PLAN

- Employees hired before January 1, 1990, who remained in the Basic Plan (less than 18% of employees)
- Basic members do not make contributions to the retirement system
- Takes 10 years to be vested in the system
- At age 55 retire with 30 years of service. Age 60 with 10 years.
- Reduced benefits at age 55 with more than 15 but less than 30 years of service)¹⁴

Public Schools Retirement Plan

- Post - Retirement Increases
 - MIP members receive a 3% non-compounded annual increase (no maximum)
 - Persons retired 1/1/87 or earlier were provided MIP post-retirement increases and receive a 3% non-compounded annual increase and may receive a payment based on investment earnings
 - Basic plan retirees after 1/1/87 may receive a payment based on investment earnings

15

Public Schools Retirement Plan

- Retirees and their eligible dependents may choose to have:
 - Medical, Prescription Drug and Hearing
 - Dental / Vision

16

Public Schools Retirement Plan

- Health care is self-funded on a “pay-as-you-go” basis
- Each year, schools pay the cost of retiree health care for that year as a percentage of payroll from their operating budgets

17

State Employees Retirement Plans

DEFINED BENEFIT

- Most employees* hired before March 31, 1997
- Employees do not make contributions to the retirement system
- Takes 10 years to be vested in the system
- Must be age 55 with 30 years of service to retire, age 60 with 10 years of service, or with reduced benefits at age 55 with more than 15 but less than 30 years of service

*some employees of the legislature, certain correctional facilities, community health facilities and conservation officers have different retirement requirements

DEFINED CONTRIBUTION

- Any employee hired on or after March 31, 1997 or who transferred from the Defined Benefit Plan
- State contribution is 4% of the employee's annual salary
State will match up to the first 3% of any employee contributions
- Takes 2 years to be 50% vested in the system, 3 years to be 75% vested, or 4 years to be 100% vested
- Upon termination a former employee has access to their vested contributions and investment return

18

State Employees Retirement Plans

- Post – Retirement Increases
 - Members retired on or after 10/1/87 receive a 3% non-compounded annual increase, \$300 maximum
 - Members retired before 10/1/87 receive a 3% non-compounded annual increase, \$300 maximum, and also may receive a supplemental payment based on investment earnings

19

State Employees Retirement Plans

- Retirees and their eligible dependents may choose to have:
 - Medical and Prescription Drug
 - Dental / Vision

20

Judges Retirement Plans

DEFINED BENEFIT

- Any position, appointed or elected, before March 31, 1997
- Members contribute 3.5% to 7% of participating salary depending on position
- Takes 8 years to be vested in the system
- Must be age 55 with 18 years of service to retire, age 60 with 8 years of service, or 25 years of service with no age minimum

DEFINED CONTRIBUTION

- Any position, appointed or elected, on or after March 31, 1997 or transferred from the Defined Benefit Plan
- State contribution is 4% of the member's annual salary
- State will match up to the first 3% of any employee contributions
- Takes 2 years to be 50% vested in the system, 3 years to be 75% vested, or 4 years to be 100% vested

21

Judges Retirement Plans

- Medical, Dental and Vision coverage are available through the State Health Plan
- Only elected officials, Supreme Court Justices and Appellate Judges eligible for the subsidized premium
 - Defined Benefit plan members receive a fixed health care subsidy
 - Defined Contribution participants receive a variable subsidized premium dependent on years of service

22

State Police Retirement Plan

- Funded by contributions from the Michigan Department of State Police.
- Employee contributions are not currently required
- Takes 10 years to be vested in the system
- Can retire at any age with 25 years of service

23

State Police Retirement Plan

POST-RETIREMENT INCREASES

- Members receive a 2% non-compounded annual increase, \$500 maximum amount

24

State Police Retirement Plan

- Retirees and their eligible dependents may choose to have:
 - Medical and Prescription Drug
 - Dental / Vision

25

Contesting Decisions

- An individual who disagrees with a decision made by the retirement system generally may request an administrative hearing
- The hearing process is conducted as required under the Administration Procedures Act
- An Independent Hearing Officer/Administrative Law Judge is designated to preside over the hearing and provides a proposal for decision (PFD) containing proposed findings of fact and conclusions of law
- The Board makes the final administrative decision
- If individual disagrees with the Board's decision, they can appeal to the Circuit Court

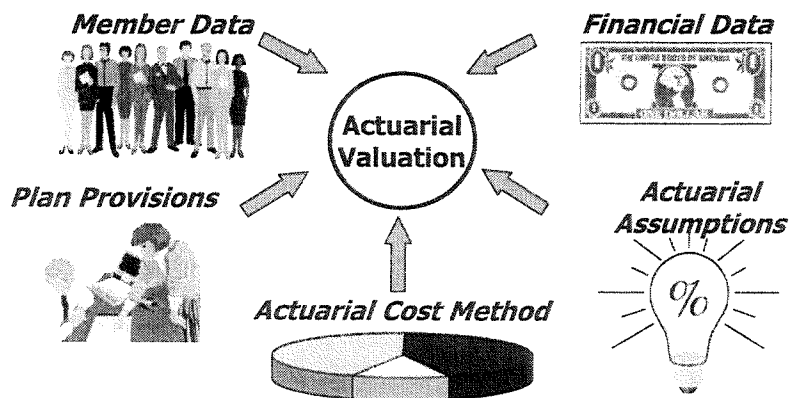
26

Reviewing Actuarial Assumptions

- **Actuarial Valuation for Pension Benefits:** prepared annually to determine the actuarial condition of the retirement system and the employer contribution rate required to fund the system on an actuarial reserve basis
- **Actuarial Valuation for Health Benefits:** prepared annually to determine the employer contribution rate that would apply if pre-funding were in effect (uses the same actuarial assumptions as for pension population)
- **Experience Study:** conducted every five years to analyze the actual experience of the retirement system versus the anticipated experience by the actuarial assumptions currently in use

27

Actuarial Valuation Process



28

Public Schools - Pension Fund

- Assets = \$39 Billion
- Liabilities = \$46.3 Billion
- Contribution Rate = 8.32%
- Funded Ratio = 83.7%%

* Figures as of close of fiscal year, September 2004, with the exception of the contribution rate that reflects fiscal year 2005.

29

Public Schools - Health Fund

- Annual Costs = \$666.5 million
- Contribution Rate = 6.55%
- Potential Unfunded Liability = \$15.7 billion

* Figures as of September 2003 valuation.

30

Public Schools - Health Fund

- Health benefits are funded by each school district from its revenues
- Each school district is required to contribute a designated percentage of payroll to fund pensions and health costs

31

State Employees – Pension Fund

- Assets = \$10 Billion
- Liabilities = \$12 Billion
- Contribution Rate = 13.12%
- Funded Ratio = 84.5%

* Figures as of close of fiscal year, September 2004, with the exception of the contribution rate that reflects fiscal year 2005.

32

State Employees – Health Fund

- Annual Costs = \$379 Million
- Contribution Rate = 11.40%
- Potential Unfunded Liability = \$8.2 billion

* Figures as of September 2003 valuation.

33

Judges – Pension Fund

- Assets = \$286 Million
- Liabilities = \$236 Million
- Contribution Rate = 0%
- Funded Ratio = 121.3%

* Figures as of close of fiscal year, September 2004, with the exception of the contribution rate that reflects fiscal year 2005.

34

Judges – Health Fund

- Annual Costs = \$576,043
- Contribution Rate = 0%
- Potential Unfunded Liability = \$5.2 million

* Figures as of September 2003 valuation.

35

State Police – Pension Fund

- Assets = \$1 Billion
- Liabilities = \$1.3 Billion
- Contribution Rate = 23.27%
- Funded Ratio = 89.0%

* Figures as of close of fiscal year, September 2004, with the exception of the contribution rate that reflects fiscal year 2005.

36

State Police – Health Fund

- Annual Costs = \$29.1 Million
- Contribution Rate = 23.89%
- Potential Unfunded Liability = \$539.5 million

* Figures as of September 2003 valuation.

37

Economic Impact

- The System also serves as a source of economic stimulus to the State of Michigan
- Michigan's existing pension systems are valuable assets and provide a strong foundation for Michigan's economy

38

Economic Impact

- The Retirement System annually provides over \$3.2 billion in pension benefits
- In 2004, the System provided over \$1 billion in health care benefits

39

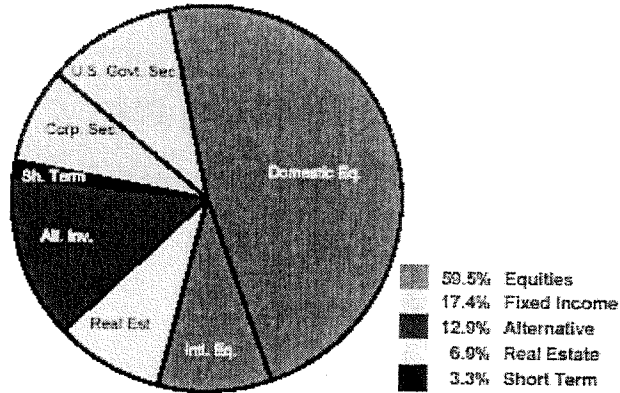
Economic Impact

- The benefits to Michigan's economy come at a reasonable cost:
 - In 2004, \$2.4 billion in contributions resulted in \$4.2 billion in pension and health benefit payments. Investment earnings covered the difference.
 - Using a conservative multiplier of 2.5, it can be projected that the pension and health benefits pumped \$10.5 billion into Michigan's economy in 2004

40

Investments

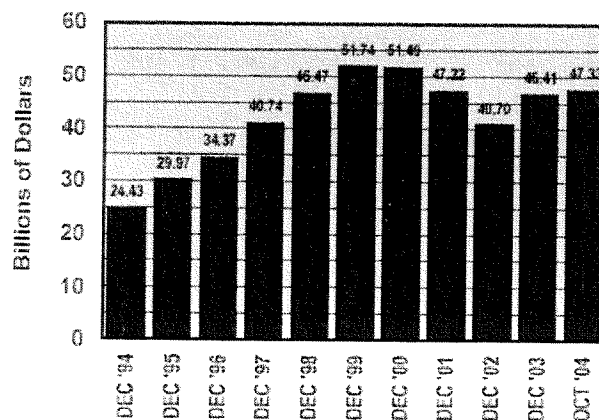
Asset Allocation
10/31/04



41

Retirement Fund Value

Market Value
12/94 - 10/04



42

Increased Work/Better Services

- 100% increase in workload with 25% reduction in staff
- Services provided at ½ the cost of peers
- Customer satisfaction between 78% and 90%

43

Status

- Investments
- Administration
- Pension
- Health

44

Questions

45

